

Message Text

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ACTION AF-18

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SUBJECT: ETHIOPIA'S ECONOMIC POSITION AT THE BEGINNING OF THE
NEW REGIME

1. SUMMARY: AS NEW ETHIOPIAN REGIME TAKES POWER IT ENJOYS BOTH
STRONG EXTERNAL POSITION AND REASONABLE HEALTHY FISCAL SITUATION.
ACCORDING TO THE LAST OFFICIAL FIGURES (MAY 1974), NET FOREIGN
ASSETS WERE US\$307.2 MILLION, OR ABOUT 14 MONTHS OF 1974 LEVEL
IMPORTS. EMBASSY ESTIMATES THAT BY END AUGUST NET FOREIGN ASSETS
HAD RISEN TO US\$312.2 MILLION, AN INCREASE OF US\$101.5 MILLION
SINCE DECEMBER 31, 1973. NEW GOVERNMENT FACES NO SHORT TERM
FINANCIAL PROBLEMS. MINISTRY OF FINANCE OFFICIALS RECENTLY
STATED CY 1974 TAX REVENUES CONTINUE SUBSTANTIALLY ABOVE LAST
YEAR'S LEVELS. GOVERNMENT CASH DEPOSITS WITH BANKING SYSTEM
HIGHEST SINCE 1966 WHILE LOW LEVEL GOVERNMENT BORROWINGS MEANS
ROOM FOR INCREASE IN DEFICIT FINANCING IF THAT BECOMES NECESSARY.
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PRIVATE SECTOR, HOWEVER, HAS BEEN IN BAD SHAPE FOR PAST SEVERAL

MONTHS AND WILL REQUIRE ATTENTION OF NEW GOVERNMENT IN NEAR FUTURE.
END SUMMARY.

2. EXTERNAL SECTOR: JUST-RELEASED NATIONAL BANK OF ETHIOPIA (NBE) FIGURES INDICATE ETHIOPIA HAD 1973 BALANCE OF PAYMENTS SURPLUS OF US\$77.7 MILLION. US\$27.1 MILLION TRADE SURPLUS DUE TO HIGH WORLD PRICES FOR ETHIOPIAN AGRICULTURAL EXPORTS AND CONTINUED DEPRESSED IMPORTS. ON PAYMENTS SIDE HEAVY PRIVATE TRANSFERS FROM ABROAD FOR DROUGHT RELIEF PURPOSES PUSHED UP INVISIBLES. THUS NET RESERVE POSITION IN DECEMBER 1973 TOTALED US\$205.7 MILLION OR ABOUT 11 MONTHS IMPORT COVER. TRADE FIGURES AVAILABLE FOR FIRST FIVE MONTHS OF 1974 SHOW UNOFFICIAL TRADE SURPLUS OF US\$89.9 MILLION COMPARED TO A US\$25.5 MILLION SURPLUS FOR SAME 1973 PERIOD. HIGH COFFEE AND PULSE PRICES PLUS EXPANDING PULSE EXPORT VOLUMES (UP 20,000 MT OVER 1973 LEVELS) BUOYED EXPORTS. EXPENDITURES ON IMPORTS REMAINED SLUGGISH DESPITE HIGHER PETROLEUM BILL. CONTINUING FOREIGN GOVERNMENT AND PRIVATE DROUGHT RELIEF TRANSFER SWELLED INVISIBLE PAYMENTS SURPLUS FOR JANUARY-MAY TO US\$38.3 MILLION. LAST (MAY) OFFICIAL NET FOREIGN ASSETS FIGURES WERE US\$307.2 MILLION OR ABOUT 14 MONTHS 1974-LEVEL IMPORT COVER. EMBASSY ESTIMATES THAT NET FOREIGN ASSETS HAD RISEN TO ABOUT US\$312.2 MILLION BY END OF AUGUST.

3. FISCAL SITUATION: GOVERNMENT FACES NO SHORT-TERM FINANCIAL PROBLEMS. ACCORDING MINFIN OFFICIALS CY-74 TAX REVENUES UP DUE HIGH (TAXABLE) EXPORT EARNINGS AND SALUTARY EFFECT OF AFCC ANTI-CORRUPTION DRIVE ON TAX COLLECTION ACTIVITIES. GOVERNMENT CASH DEPOSITS WITH BANKING SYSTEM (75 PERCENT WITH NBE) AVERAGED US\$34.6 MILLION FOR JANUARY-MAY 1974--HIGHEST LEVEL SINCE 1966. MOREOVER, CURRENT LOW LEVEL GOVERNMENT BORROWING FROM BANKING SYSTEM GIVES CONSIDERABLE LEEWAY RE DEFICIT FINANCING. EMBASSY WILL PROVIDE ANALYSIS OF FY-75 BUDGET AS SOON AS REVENUE/EXPENDITURE DATA FOR FY-75 SUPPLEMENTAL BUDGET (REPORTEDLY US\$63.4 MILLION) ARE AVAILABLE.

4. PRIVATE SECTOR: OVER PAST SEVERAL MONTHS, ECONOMIC ACTIVITY IN PRIVATE SECTOR DECLINED CONSIDERABLY. LOW LEVEL OF IMPORTS, DECREASE IN RETAIL TRADE AND DECLINING LEVELS OF COMMERCIAL BANK LENDING TESTIFY TO BUSINESS SLOWDOWN. THIS SITUATION OBVIOUSLY DUE TO POLITICAL UNCERTAINTIES. IF NEW GOVERNMENT WINS CONFIDENCE OF BUSINESS COMMUNITY, ESPECIALLY REGARDING GOVERNMENT'S ATTITUDE
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TOWARD NATIONALIZATION, EMBASSY BELIEVES PRIVATE SECTOR WILL ALMOST CERTAINLY RESUME PREVIOUS LEVELS OF ECONOMIC ACTIVITY FOR EXAMPLE, IN SPITE OF UNSETTLED POLITICAL SITUATION, MANY FIRMS PLANNING EXPANSION IN TRUCK AND AGRICULTURAL MACHINERY LINES AND ATTENDANCE AT EMBASSY SPONSORED CATALOG SHOW EXCEEDED EXPECTATIONS. BUT NOT CLEAR WHEN NEW GOVERNMENT WILL BE ABLE TO FOCUS ON ECONOMY POLICY ISSUES AND UNTIL IT DOES PRIVATE SECTOR WILL CONTINUE TO LIMP ALONG.

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